MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

June 30, 2013

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(Unaudited)

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2014
Wilbur Rehmann	Helena	January 1, 2016
Craig Anderson	Glendive	January 1, 2013
Leo Prigge	Butte	January 1, 2015

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

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Director of Dept. of Administration – Sheila Hogan
Legislative Auditor – Tori Hunthausen
President of the Senate – Jeff Essmann
Speaker of the House – Mark Blasdel

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

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Bryce Bennett, Vice Chair (D)
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Gene Vuckovich

Montana LOTTERY
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August 2013

Montana Lottery Commission:

The past quarter has been an active and exciting one. The Montana Lottery has had a busy summer with our three events/fairs, and our continued efforts to create new and exciting scratch and EZ Play games.

We had another record breaking year in sales due to player awareness and of course the big Powerball jackpots that occurred this year. We are continuing to see an overall increase in our game sales. All games but three have seen an increase over last year at this time. Scratch sales were 4.6% higher, Powerball sales were 26.6% higher, Montana Millionaire sales were up by 7.8%, Wild Card sales increased by 8.4%, and Hot Lotto was about exactly even compared to last year at this time.

We had three games that have seen decreases compared to last year at this time. Montana Cash sales were 19.2% lower, 10 Spot sales were down by 8.2%, and Mega Millions sales dropped by 36.4%.

Overall, there was an increase in operating revenue of 8.0% along with an increase in direct game costs of 11.6%. Combined with a 2.5% increase in operating expenses, the transfer for the fiscal year was $13,083,796 which is $23,124 more than last fiscal year. The percentage of transfer to revenue was 23.0% this year compared to 24.8% last year.

The Lottery plans to continue to build sales of all of its games by promoting its on-line games and innovative game themes for our EZ Play and scratch games. This includes offering games with built-in name recognition (licensed property games) for scratch products.

We are looking forward to a busy fall with another season of Fantasy Football, Montana Millionaire along with the roll out of several new EZ play games.

Sincerely,

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET ASSETS
JUNE 30, 2013 AND 2012
(Unaudited)

	Period Ended June 30, 2013	Period Ended June 30, 2012
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,770,373	$ 3,401,567
Receivables (Net)	1,655,004	1,845,914
Inventories	446,525	382,328
Cash Collateral - Security Lending	8,773	5,584
Prepaid Expenses	30,672	28,949
TOTAL CURRENT ASSETS	5,911,347	5,664,342
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,981,106	2,899,606
Leasehold Improvements	45,448	45,448
Equipment - Work in Process	0	65,000
Accumulated Depreciation	(1,571,075)	(1,057,431)
Investments	41,698	43,813
Multi-State Reserve fund	1,735,644	2,062,105
TOTAL NONCURRENT ASSETS	3,232,821	4,058,541
TOTAL ASSETS	$ 9,144,168	$ 9,722,883
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 450,526	$ 511,115
Estimated Prize Liability	2,265,134	2,071,903
Transfer Obligations	2,862,561	3,241,941
Liability under Security Lending	8,773	5,584
Deferred Revenue	153,680	137,725
Accrued Compensated Absences	170,894	120,213
Current Portion Long-Term Obligations	72,168	72,168
TOTAL CURRENT LIABILITIES	5,983,736	6,160,649
NONCURRENT LIABILITIES		
Multi-State Prize Liability	1,484,881	1,542,685
Accrued Compensated Absences	18,557	90,678
Long Term Obligations	126,294	198,461
Other Post Employment Benefits	589,890	488,054
TOTAL NONCURRENT LIABILITIES	2,219,622	2,319,878
TOTAL LIABILITIES	8,203,358	8,480,527
NET ASSETS		
Invested in Capital Assets, net of related del	1,257,017	1,681,994
Unrestricted Net Assets	(316,207)	(439,638)
TOTAL NET ASSETS	940,810	1,242,356
TOTAL LIABILITIES AND NET ASSETS	$ 9,144,168	$ 9,722,883

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS AND YEARS ENDED JUNE 30, 2013 AND 2012
(Unaudited)

	Quarter Ended June 30, 2013	Quarter Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2012
OPERATING REVENUES:				
Scratch ticket revenue	$ 4,036,826	$ 4,294,805	$ 17,279,829	$ 16,527,196
Powerball revenue	5,514,433	3,993,560	20,177,735	15,940,788
Montana Cash revenue	816,959	948,148	3,352,283	4,147,119
Wild Card revenue	485,706	471,405	2,054,829	1,895,666
Hot Lotto revenue	904,503	706,896	3,145,517	3,145,312
Mt. Millionaire revenue	0	0	2,599,780	2,412,740
Mt. Sports Action revenue	854	893	5,394	5,152
Mega Millions revenue	953,747	1,086,157	3,536,396	5,564,030
10 Spot revenue	181,192	180,173	703,061	765,902
EZ Play revenue	1,024,331	1,085,544	3,953,389	2,203,083
License, permits, and misc	-95,029	2,935	13,286	10,312
Total Operating Revenues	13,823,522	12,770,516	56,821,499	52,617,300
Less Direct Game Costs:				
Scratch ticket prize expense	2,537,550	2,538,292	10,903,493	10,307,536
On-line ticket prize expense	5,426,967	4,175,880	21,273,390	18,307,406
Retailer commission	785,915	781,789	3,367,050	3,146,282
Cost of tickets sold	315,371	131,830	977,583	885,876
Vendor fees	814,566	758,006	3,347,350	3,086,206
Total Direct Game Costs	9,880,369	8,385,797	39,868,866	35,733,306
Income Before Operating Expenses	3,943,153	4,384,719	16,952,633	16,883,994
OPERATING EXPENSES:				
Advertising	134,111	113,171	553,906	610,303
Advertising Production	72,487	35,760	200,395	155,662
Audit Fees	0	3,347	3,772	55,610
Bad Debts Expense	4,536	5,574	4,324	4,318
Communications	34,811	33,715	138,520	130,969
Contractual Services	31,715	26,463	97,722	91,719
Depreciation and Amortization	128,873	133,740	513,644	458,598
Interest	3,026	4,063	13,659	17,809
Administrative Service Fee	15,809	15,837	63,234	63,348
Multi-State Dues	17,874	10,857	117,008	49,657
Public Relations	(906)	12,654	61,422	36,017
Other	7,586	1,249	26,821	27,743
Personal Services	500,114	493,902	1,846,662	1,809,740
Repairs and Maintenance	4,145	4,013	24,459	29,215
Supplies and Materials	52,182	187,912	199,981	235,206
Travel	11,212	14,123	50,363	41,806
Utilities and Rent	40,016	39,095	162,535	161,776
Total Operating Expense	1,057,591	1,135,495	4,078,427	3,979,498
Operating Income	2,885,562	3,249,224	12,874,206	12,904,496
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,625	2,363	9,858	10,358
Security Lending Income	33	1,037	33	1,037
Security Lending Expense	(11)	(204)	(11)	(204)
Gain/Loss on sale of asset	0	0	0	(5,303)
OPEB Expenses	(101,836)	(89,199)	(101,836)	(89,199)
Total Nonoperating Revenues(Expenses)	(100,189)	(86,003)	(91,956)	(83,311)
Income Before Operating Transfers	2,785,373	3,163,221	12,782,250	12,821,185
Operating Transfers In - General Fund	(2,862,561)	(3,241,941)	(13,083,796)	(13,060,672)
Total Operating Transfers Out - General Fund	(2,862,561)	(3,241,941)	(13,083,796)	(13,060,672)
CHANGE IN NET ASSETS	(77,188)	(78,720)	(301,546)	(239,487)
Total Net Assets, Beginning of Period	1,017,998	1,321,076	1,242,356	1,481,843
TOTAL NET ASSETS, END OF PERIOD	$ 940,810	$ 1,242,356	$ 940,810	$ 1,242,356

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE YEAR ENDED JUNE 30, 2013
(Unaudited)

	Budget Fiscal Year July 1, 2012 - June 30, 2013	Actual Year Ended June 30, 2013 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ 16,000,000	$ 17,279,829	108.00
Powerball revenue	18,000,000	20,177,735	112.10
Montana Cash revenue	3,300,000	3,352,283	101.58
Wild Card revenue	2,000,000	2,054,829	102.74
Hot Lotto revenue	3,000,000	3,145,517	104.85
MT Millionaire	2,600,000	2,599,780	99.99
MT Sports Action (Admin Fees)	5,000	5,394	107.88
10 Spot	650,000	703,061	108.16
Mega Millions	4,000,000	3,536,396	88.41
EZ Play revenue	2,200,000	3,953,389	179.70
License, permits, and miscellaneous	10,000	13,286	132.86
Total Revenues	51,765,000	56,821,499	109.77
DIRECT GAME COSTS:			
Prizes - Scratch ticket	9,969,600	10,903,493	109.37
Prizes - Lotto games	18,232,500	19,764,468	108.40
Prizes - MT Millionaire	1,510,000	1,508,922	99.93
Retailer commissions	3,002,500	3,367,050	112.14
Ticket cost - scratch games	910,000	977,583	107.43
Ticket cost - vendor fees	2,802,237	3,347,350	119.45
Total Direct Game Costs	36,426,837	39,868,866	109.45
OPERATING EXPENSES:			
Advertising	620,000	553,906	89.34
Advertising Production	144,000	200,395	139.16
Audit Fees	51,370	3,772	7.34
Communications	119,793	138,520	115.63
Contractual Services	112,786	97,722	86.64
Interest	13,659	13,659	100.00
Administrative Service Fee	63,250	63,234	99.97
Multi-State Dues	49,000	117,008	238.79
Public Relations	50,000	61,422	122.84
Other	47,068	26,821	56.98
Personal Services	1,800,905	1,846,662	102.54
Repairs and Maintenance	33,850	24,459	72.26
Supplies and Materials	164,172	199,981	121.81
Travel	50,400	50,363	99.93
Utilities and Rent	235,248	162,535	69.09
Equipment	27,077	16,500	60.94
Total Operating Expenses	3,582,578	3,576,959	99.84
Operating Income	11,755,585	13,375,674	113.78
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	10,000	8,554	85.54
NET INCOME (BUDGETARY BASIS)	$ 11,765,585	$ 13,282,414	112.89
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	27,077	16,500	60.94
Adjustment for depreciation expense	(512,648)	(513,644)	100.19
Bad Debts	0	(4,324)	0.00
MUSL interest earnings	2,000	1,304	65.20
Total Reconciling Items	(483,571)	(500,164)	
NET INCOME (GAAP BASIS)	$ 11,282,014	$ 12,782,250	113.30

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE YEAR ENDED JUNE 30, 2013

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT. MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	MT SPORTS ACTION	ADMIN
REVENUES:	$ 17,279,829	$ 20,177,735	$ 3,352,283	$ 2,054,829	$ 3,145,517	$ 2,599,780	$ 3,536,396	$ 703,061	$ 3,953,389	$ 5,394	$ 13,286
DIRECT GAME COSTS:											
Prize Expense	10,903,493	9,724,203	2,040,863	1,107,651	1,526,584	1,508,922	1,704,224	394,108	3,243,981	0	22,854
Retailer Commissions	1,391,279	1,008,515	167,594	102,738	157,271	130,000	176,812	35,172	197,669	0	0
Cost of Tickets Sold	977,583	0	0	0	0	0	0	0	0	0	0
Vendor Fees	1,012,838	1,180,600	205,233	129,960	193,233	150,805	204,954	40,755	228,972	0	0
NET OPERATING REVENUE	2,994,636	8,264,417	938,593	714,480	1,268,429	810,053	1,450,406	233,026	282,767	5,394	(9,568)
OPERATING EXPENSES:											
Advertising	74,199	61,290	50,067	50,067	50,067	49,072	61,413	50,067	50,066	49,114	8,484
Advertising Production	24,982	25,571	28,451	12,231	18,038	21,705	28,119	22,146	9,988	9,162	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	3,772
Bad Debts	0	0	0	0	0	0	0	0	0	0	4,324
Communications	57,573	0	0	0	0	0	0	0	0	0	80,947
Contractual Services	292	0	0	0	0	12,799	0	0	0	2,479	82,152
Depreciation and Amortization	97,592	46,228	46,228	35,955	35,955	46,228	15,409	15,409	15,409	61,637	97,594
Interest	0	0	0	0	0	0	0	0	0	0	13,659
Administrative Service Fee	15,809	6,323	5,691	4,426	4,426	3,794	1,897	1,897	1,897	3,794	13,279
Multi-State Dues	0	81,648	0	8,319	12,730	0	14,310	0	0	0	0
Public Relations	7,528	882	882	882	882	0	882	882	882	0	47,720
Other	1,953	0	0	0	0	0	0	0	0	0	24,868
Personal Services	461,666	184,666	166,200	129,266	129,266	110,800	55,400	55,400	55,400	110,800	387,799
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	24,459
Supplies and Materials	42,350	3	3	3	3	0	0	0	0	0	157,620
Travel	5,649	1,413	1,412	1,412	1,412	0	0	0	0	0	39,065
Utilities and Rent	790	198	198	198	198	0	198	198	198	0	160,357
TOTAL OPERATING EXPENSES	790,383	408,222	299,132	242,759	252,977	244,398	177,628	146,001	133,840	236,986	1,146,101
OPERATING INCOME	2,204,253	7,856,195	639,461	471,721	1,015,452	565,655	1,272,778	87,025	148,927	(231,592)	(1,155,669)
NONOPERATING REVENUES (EXPENSES)											
Security Lending Transactions	0	0	0	0	0	0	0	0	0	0	22
Interest Earnings	0	0	0	0	0	0	0	0	0	0	9,858
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	(101,836)
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	(91,956)
NET INCOME BY PRODUCT	$ 2,204,253	$ 7,856,195	$ 639,461	$ 471,721	$ 1,015,452	$ 565,655	$ 1,272,778	$ 87,025	$ 148,927	$ (231,592)	$ (1,247,625)
PROFIT AS A % OF REVENUE	12.76%	38.93%	19.08%	22.96%	32.28%	21.76%	35.99%	12.38%	3.77%	N/A	N/A

NOTE: THIS IS 'TWELVE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are, investment income, and gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and twelve months ended June 30, 2013 was $118,580 and $481,163, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended June 30, 2013, promotional credits resulted in a revenue reduction of approximately $4,649 and an expense reclassification of approximately $2,967. For the year ended June 30, 2013, promotional credits resulted in a revenue reduction of approximately $21,296 and an expense reclassification of approximately $15,154.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 6/30/13	Quarter Ended 6/30/12	Year To Date 6/30/13	Year To Date 6/30/12
Lotto	$158,999	$124,768	$561,656	$484,389
Scratch	$ 80,080	$260,931	$369,562	$454,014
TOTALS	$239,079	$385,699	$931,218	$938,403

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	June 30,	
	2013	2012
Short-term investment pool	$3,169,315	$2,658,107
Cash on deposit with State Treasurer	590,858	723,045
Cash in revolving deposit account	10,000	20,215
Petty Cash & Cash on Hand	200	200
TOTALS	$3,770,373	$3,401,567

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $23,481 at June 30, 2013 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $1,928,974, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include $426 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at June 30, 2013, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2013. The allowance for ticket returns is $291,291 at June 30, 2013. The return of vendor fees related to the allowance for returns is $16,895.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $327,072 stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At year end, supplies inventories totaled $119,453. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2012	Additions	Deletions	June 30, 2013
Leasehold Improvements	$ 45,448	$ -	$ -	$ 45,448
Furniture & Equipment	$ 2,899,606	$ 81,500	$ -	$ 2,981,106
Accumulated Depreciation	$(1,057,431)	$(513,644)	$ -	$(1,571,075)

Other Current Assets. Other current assets include the following:

	June 30,	
	2013	2012
Prepaid Expenses	$30,672	$28,949
Employee Advances	-	-
TOTALS	$30,672	$28,949

The prepaid expense amount consists of $14,075 for booth fees for upcoming summer fairs, and $16,597 for prepaid commissions and vendor fees related to deferred revenue.

Transfer Obligations. The account "Transfer Obligations" is $2,862,561 payable to the General Fund at June 30, 2013.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2012	Net Leave Earned/(Used)	Balance June 30, 2013
$210,891	$(21,440)	$189,451

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and twelve months ended June 30, 2013 retailers earned bonus commissions of $84,018 and $475,579, respectively. For the quarter and twelve months ended June 30, 2013 total commissions were $785,915 and $3,367,050, respectively.

OPEB (Other Post Employment Benefits) Implicit Rate Subsidy LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2013 and 2012 are as follows:

Year ended June 30,	2013	2012
Annual Required Contribution	$ 101,836	$ 92,717
Adjustment to annual required contributions	-	-
Annual OPEB cost	$ 101,836	$ 92,717
Contributions made	-	-
Increase to net OPEB obligation	$ 101,836	$ 92,717
Net OPEB obligation – beginning of year	$ 488,054	$ 395,337
Net OPEB obligation – end of year	$ 589,890	$ 488,054

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal year ended June 30, 2013:

Insurance	$ 12,062
Warrant Writing Services	576
Payroll Services	7,444

Audit Fees	3,772
Computer Fees	56,807
Printing	1,347
State Accounting System Support	2,597
Supplies & Materials	12,027
Mail Processing Fees	9,530
Telecommunications	18,205
Administrative Service Fees	63,234
Other	1,306
TOTAL	$ 188,907

4. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended June 30, 2013, the prize expense of $7,964,517 is 57.2% of net Lottery ticket revenue of $13,917,697. For the year ended June 30, 2013, the prize expense of $32,176,883 is 56.6% of net Lottery ticket revenue of $56,802,819.

5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended June 30, 2013, the net revenue payable to the State General Fund totaled $2,862,561.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,735,644 as of June 30, 2013 is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	June 30, 2013	June 30, 2012
Powerball Prize Reserve Account	$ 521,972	$ 645,929
Powerball Set Prize Reserve Account	234,139	207,229
Powerball Unreserved Account	250,763	519,420
Wild Card Prize Reserved Account	191,772	218,956
Hot Lotto Set Prize Reserve Account	363,138	354,840
Mega Millions Prize Reserve Account	173,860	115,731
Total	$1,735,644	$2,062,105

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010. As a start-up game, the reserve was negative at the year end as the Lottery had not built up enough history and accumulated enough sales to create an excess reserve.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $20 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $200,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the wild card to win the

jackpot; players win prizes from $1 to $5,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights. In January 2008, the Lottery added the Sizzler option to the Hot Lotto game. For an additional bet, the Sizzler option provides non-jackpot winners the chance to multiply their prize amount by three.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire began on November 1, 2009 with the final drawing on January 1, 2010. The tickets were sold sequentially across the state with 1 to 150,000 available. There were 400 - $50 instant win prizes for every 375th ticket purchased. The final drawings were held on January 1, 2010 and consisted of one $1 million dollar top prize, five $100,000 prizes, and five $10,000 prizes. This game will begin again on November 1, 2013 with the final drawing on approximately January 1, 2014. The number of tickets available will be 125,000 with two early bird prizes of $10,000 each being awarded in late November and mid December.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of June 30, 2013, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $4,825,000. Total annual payments due as of June 30, 2013 are as follows:

FYE	
2014	2,155,000
2015	2,120,000
2016	550,000
	$ 4,825,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $11,775 through August 2013. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at June 30, 2013 are as follows:

FYE	
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	214,628
Less: Interest	(16,166)
Present value of Minimum Payments	$ 198,462

11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 58% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 42% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2012, the duration for the U.S. Government Treasury securities was 0.49 years.

12. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

-Alternative accessible formats of this document will be provided upon request.